

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 IO-14 ISO-00 EB-08 STR-07 COME-00

CEA-01 TRSE-00 SP-02 ICA-20 AID-05 NSC-05 SS-15

OMB-01 L-03 H-02 CIAE-00 FRB-01 INR-10 NSAE-00

XMB-04 OPIC-06 LAB-04 SIL-01 /134 W

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FM AMEMBASSY TOKYO

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UNCLAS TOKYO 15448

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USOECD

E.O. 11652: NA

TAGS: ETRD, MTN, JA

SUBJECT: JAPANESE CURRENT ACCOUNT ADJUSTMENT POLICIES:

TIE-IN SHIP PURCHASES

REF: STATE 165284

1. SUMMARY. MOT VERIFIED JUNE 28 JOURNAL OF COMMERCE REPORT ON GOJ PROGRAM TO PROVIDE FINANCING FOR JAPANESE SHIPPING LINES TO BUY BACK SHIPS OF FOREIGN SUBSIDIARIES. MOT SAID THE PROGRAM WAS DESIGNED TO HELP REDUCE JAPAN'S CURRENT ACCOUNT SURPLUS THIS FISCAL YEAR. SO FAR, TWO SHIPPING LINES HAVE EXPRESSED INTEREST. END SUMMARY.

2. THE MINISTRY OF TRANSPORT (MOT) VERIFIED A JUNE 28 JOURNAL OF COMMERCE REPORT THAT THE MOT HAD IMPLEMENTED A PROGRAM TO PROVIDE FINANCING FOR JAPANESE SHIPPING LINES TO BUY BACK SHIPS OF FOREIGN REGISTRY OWNED BY UNCLASSIFIED

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THEIR FOREIGN SUBSIDIARIES. KNOWN AS TIE-IN SHIPS, THEY WERE ORIGINALLY FINANCED BY LONG TERM LOANS FROM FOREIGN BANKS AT INTEREST RATES AS HIGH AS 9 PCT PER ANNUM. THE BUY BACK PLAN PERMITS JAPANESE SHIPOWNERS TO CLEAR THEIR FOREIGN BANK LOANS AND REFINANCE THEIR SHIPS WITH JAPANESE EXPORT-IMPORT BANK DOLLAR FUNDS BORROWED AT A RATE OF 6 PCT PER ANNUM FOR LOANS OF 3 TO 10 YEARS; OR 4.75 PCT

FLOATING RATES FOR LOANS OF LESS THAN 3 YEARS. MOT ESTIMATES THAT OF APPROXIMATELY 500 TIE-IN SHIPS, INCLUDING 50 SHIPS NOW MANNED BY JAPAN CREWS COULD BE REFINANCED BY THE PROGRAM. MOT DOUBTS MUCH INTEREST WILL IN FACT BE SHOWN FOR REFINANCING SHIPS NOT MANNED BY JAPANESE CREWS SINCE MOST OF THESE ARE MANNED BY LOW PAID FOREIGN CREWS. REPLACING THEM WITH HIGHER PAID JAPANESE CREWS AS MOT WOULD REQUIRE WOULD RAISE OPERATING COSTS, THEY NOTED.

3. MOT OFFICIALS SAID THE PROGRAM WAS DESIGNED TO REDUCE JAPAN'S CURRENT ACCOUNTS SURPLUS. IT IS NOT CONNECTED WITH POLICIES TO AID STRUCTURALLY DEPRESSED INDUSTRIES SUCH AS THE SHIPBUILDING INDUSTRY. TO TAKE ADVANTAGE OF THE PLAN, SHIPOWNERS MUST COMPLETE GOJ FINANCING WITHIN JFY 1978 (ENDING MARCH 31, 1979).

4. TO DATE, TWO SHIPPING COMPANIES HAVE EXPRESSED A SERIOUS INTEREST IN THE PROGRAM. ONE HAS BOUGHT BACK A TANKER FOR LEASE TO GOJ TO BE ANCHORED AND USED FOR OIL STORAGE; AND THE OTHER WOULD LIKE TO REFINANCE TWO TANKERS ALREADY MANNED BY JAPANESE CREWS TO TAKE ADVANTAGE OF LOWER INTEREST RATES. THE FORMER MOVE WILL EFFECTIVELY MOTHBALL A SHIP EARNING MARGINAL REVENUES BECAUSE OF THE WORLDWIDE OVER CAPACITY OF TANKERS.

5. MOT IS CONCERNED THAT SOME OWNERS MAY HAVE DIFFICULTY CANCELING ORIGINAL LOAN CONTRACTS WITH FOREIGN BANKS.

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THE JAPAN SHIPOWNERS' ASSOCIATION EXPECTS ABOUT 30 SHIPS WILL ULTIMATELY BE ABLE TO PARTICIPATE IN THE PROGRAM. MANSFIELD

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